The persistence of Poverty in Capitalist Countries

La persistencia de la pobreza en los países capitalistas

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Palabras clave

Pobreza, clásico, neoclásico, Marx

Key words

Poverty, Capitalism, Classic, Neoclassic, Marx

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B12, B14, E11, I3

Abstract

This article describes the increased rate of poverty in the United States and Europe in the 2000s. Expanding productivity has not resulted in a concomitant improvement in the standard of living of people. Neither classical nor neoclassical theories explain the persistence of poverty in developed countries. First of all, the classical theory of poverty is based on a minimum level of subsistence for human beings, whereas neoclassicals maintain that low wages will reduce poverty. We argue that these ideas are characteristic of the capitalist perspective and that revising Marxian foundations may provide some insight into poverty in capitalism and its current evolution.

Resumen

El artículo describe la persistencia de la pobreza en países desarrollados como Europa y Estados durante el neoliberalismo. Afirmamos que tanto la escuela clásica y neoclásica no tienen las herramientas suficientes para analizar la evolución de la pobreza en el capitalismo. Los primeros conceptualizan la pobreza como una vida mínima en los seres humanos, y los segundos que la reducción de la pobreza se basa en la reducción de salarios. Argumentamos que bajo las ideas de Marx puede entenderse la evolución de la pobreza en la actualidad.

1. Introduction

The failure of capitalism in the vast majority of the Third World became apparent in the 1960s through the 1970s because during this time countries with high growth rates experienced a myriad of problems, including an increase in inequality and poverty (Sen, 1985; Cornia, 1974), from the 1980s to the present day, poor countries have faced economic stagnation and crises. In the 2000s, capitalism has failed in developed countries. On the one hand, some of these countries, including the United States, have experienced economic stagnation and poverty levels are higher than those that prevailed during the 1970s. On the other hand, other countries, such as those in Europe, have undergone stagnation and minimal poverty reduction during the 2000s. Today, the world is in the deepest economic crisis since the Great Depression.

According to the orthodox point of view, poverty is defined as the inability to reach a minimum level of existence, assuming that the main way people obtain their means of subsistence in capitalism is through selling their labor force. If wages were increased, the result would be more poverty because of an increase in unemployment. Lower wages provoke a higher level of employment, and higher wages provoke higher levels of unemployment. Based on historical materialism, we reject the ideas mentioned before and claim that poverty is inherent to capitalism, and that a lower standard of living and lower wages are needed in capitalism for its perpetuation.

This article proceeds as follows. After this brief introduction, the evolution of poverty in the United States and Europe is described in Section 2. In Section 3, the concept of poverty and its causes, based on classical and neoclassical roots, is examined. In Section 4, we describe why neoclassical explanations of poverty have become so dominant the present day. In section 5, we offer a rebuttal to classical and neoclassical ideas based on Karl Marx's foundations. Concluding remarks are presented in section 6.

2. Evolution of poverty in the US and Europe

Researchers have noted the surprising increase in poverty rates in the 1990s and 2000s in developed countries. After all, not many years ago R. Brenner (2002) recounted how Alan Greenspan (the former Federal Reserve chair) characterized the 1990s as the most impressive era in capacity production in US history. However, in spite of Greenspan's assessment, there were more poor people in the United States in 2012 than in, the 1970s.

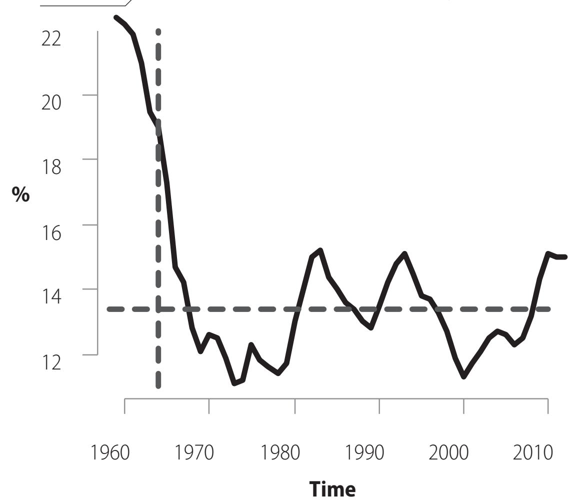
From 1963/64 to 1973/74 poverty declined sharply from 19 to 11.1%, which at the time was the lowest level since World War II (Levine, 2001) (see Figure 1).[1] The decline in the rate of poverty was, to some degree, due to the antipoverty program established in 1964 by President Lyndon Johnson (1963-1969) (see Lowe, 1989; Hobsbawm 2003; Ciocca 2000; Levine, 2000). However, this program ended in 1974, perhaps in line with the world crisis of 1973/74. Since then, the poverty rate has experienced cyclical ups and downs, with three peaks in 1983, 1993 and 2010. During 1983 the poverty rate was 15.2%, and during 1993 and 2010 the rate was 15.1%. Two variables appear to be influential in the evolution of the

1 According to Levine (2001, 19), economic growth in the US during the 1920s did not encompass the working class. However, after WWII, the living conditions of workers improved.

index of poverty: (1) the unemployment rate, especially since the mid-1970s to the present day, and (2) the increase in public spending and tax cuts especially in the late 1970's, the mid-1980's (see Armstrong, Glyn, and Harrison 1991) and the mid-1990's.

The median poverty rate was 13.4% from 1959 to 2012 (horizontal dashed line in Figure 1). It is clear that after the 1980's, the US population has been well above that point (see Figure 1). It can be noted that the best way to describe the growth rates of poverty in the United States is a line with a positive slope (see Figure 2). However, this approach has two problems: (1) the adjusted line explains too little due to time series fluctuations, and (2) the time series does not seem to exhibit any clear trend (see Appendix, Table 1A. Test for unit roots).

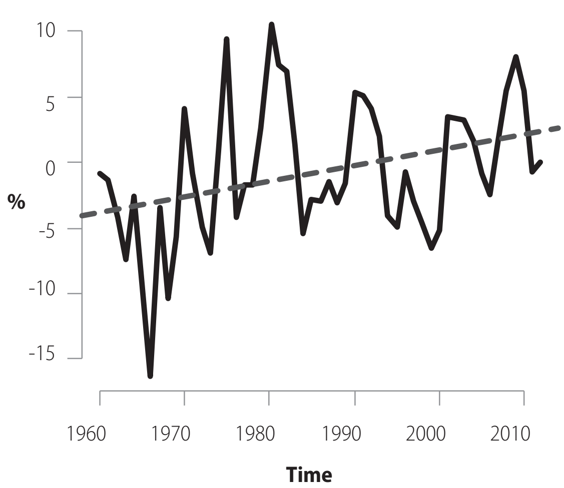
Figure 1 Headcount Index of Poverty in the US



Source: Author's elaboration with data from Census Bureau 2014.

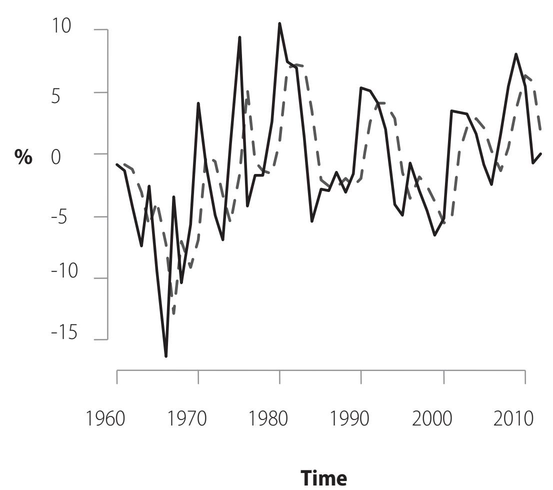
For a time series that does not have any clear trend but may exhibit several, a useful tool to examine such trends is an exponential smoothing, which can be done using the Holt-Winters filter (see Kleiber and Ceileis 2008; Copertwait and Metcalfe 2009). Thus, it appears that the growth rate of the index of poverty has three increasing trends (see Figure 3): (1) from negative rates to near zero from the 1970's to early 1980's, (2) through moderate increases to the end of the 1980's, and (3) through the 2000's with a steadily increasing growth rate.

Figure 2 Growth Rates in the Poverty rate and the Trend Line (linear). R-square = 13 %



Source: Author's elaboration with data from Census Bureau 2014.

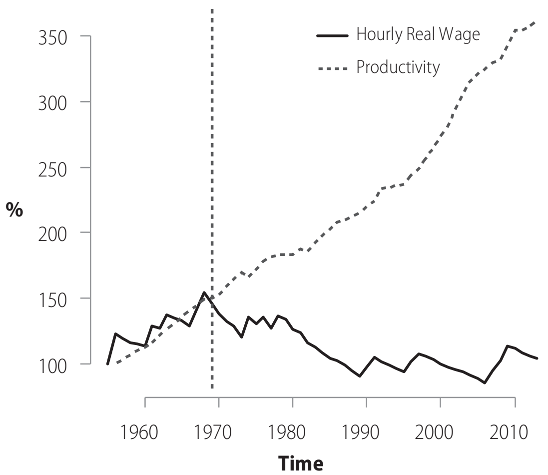
Figure 3 Exponential Smoothing. Holt Winters method. α = 0. 6209



Source: Author's elaboration with data from Census Bureau 2014.

In addition to this behavior of the poverty rate, exploitation and inequalities have increased in the US. As shown in Figure 4, productivity grew along with hourly real wages from 1955 to 1969 (mostly the Keynesian years), but from 1970 onwards workers in the US produced more but were paid less. These conditions have been exacerbated during the 2000's.

Figure 4 Productivity and hourly wage indexes in the United States



Source: Author's elaboration from data from Moody's Analytics 2014 and Department of Labor 2014.

For Europe, there is not an extended time series of the index of poverty as is the case in the United States. Hobsbawm (1993), Glynn (2006) and Lepianka *et al.* (2010) have pointed out that after the crisis of 1973/74, poverty in Europe increased due to rising unemployment and declining real wages. Reviewing the recent period, it might be concluded that poverty reduction has increased in the largest countries of Europe from 2005 to 2013 (see Table 1). This situation is the case in Germany, France, Spain, and Italy. The only big economy where the poverty rate has remained constant is the United Kingdom. In small economies or countries with a small population, experiences have been diverse. Some countries such as Ireland and Greece have increased their levels of poverty, but in many of the countries of the so-called economies in transition, poverty rates have declined. This situation is the case in the Czech Republic, Estonia, Latvia, Lithuania, Poland and Slovakia. Considering inequality, Ciocca (2000) suggests that there was a decrease in this indicator during the first decades after WWII because of the Keynesian state compromise; however, from the 1970s onwards inequality worsened in Sweden, the UK, Germany, France, and Italy (see also Glyn 2006).

From 2001 to the present day, the Gini coefficient has increased in Germany from 25 to 29.7%, in France from 27 to 30.1%, in Italy from 29 to 32.5% and in Sweden from 24 to 24.9 %. The exception is the UK where inequality has declined from 35 to 33.2% (Eurostat 2014).

In 1963, the German philosopher J. Habermas (see Dussel 2001) noted that in the rich countries such as those in Europe as well as the US and Japan, the quality of life –even in the poor sectors– had increased so extensively that the interest in the emancipation of society could not be expressed any more in just economic terms. Townsend, in the 1960s, reported that poverty in the UK was close to 1% because of the great prosperity, decreasing inequality and the implementation of the welfare state (Townsend, 1962; see also Sen, 1985; Duménil and Lévy, 2001; Glyn, 2006). Habermas and Townsend's opinions were undoubtedly influenced by the economic expansion after the war. However, McNally (2011, 38) asserts that the Golden Age was a unique event in history– "an exceptional set of social-historical circumstances that triggered an unprecedented way of expansion. But prolonged expansion with rising levels of output, wages and employment in the core economies is

Table 1
People at risk of poverty of social exclusion.[b]

Country	2005	2013	Difference from 2005 to 2013
Belgium	22.6	20.8	1.8
Czech Republic	19.6	14.6	5.0
Denmark	17.2	18.9	-1.7
Germany	18.4	20.3	-1.9
Estonia	25.9	23.5	2.4
Ireland	25.0	30.0[a]	-5.0
Greece	29.4	35.7	-6.3
Spain	23.4	27.3	-3.0
France	18.9	18.1	0.8
Italy	25.0	28.4	-3.4
Cyprus	25.3	27.8	-2.5
Latvia	46.3	35.1	11.2
Lithuania	41.0	30.8	10.2
Luxemburg	17.3	19.0	-1.7
Hungary	32.1	33.5	-1.4
Malta	20.5	24.0	-3.5
Netherlands	16.7	15.9	0.8
Austria	16.8	18.8	-2.0
Poland	45.3	25.8	19.5
Portugal	26.1	27.4	-1.3
Slovenia	18.5	20.4	-1.9
Slovakia	32.0	19.8	12.2
Finland	17.2	16.0	1.2
Sweden	14.4	16.4	-2.0
United Kingdom	24.8	0.0	0.0
Iceland	13.3	13.0	0.3
Norway	16.2	14.1	2.1

Source: Author's elaboration with data from Eurostat 2014. [a]2012. [b]Including social transfers.

not the capitalist norm." High and sustained growth rates along with strong workforce participation resulted in the reduction of poverty in the Golden Age of capitalism. However, that development of productive forces along with an institutional framework is not available any more, and from the 1970s onwards, but mostly during the 2000s, the conditions of life for the majority of the world's people have deteriorated.

What, then, are the theoretical explanations for minimal reductions of poverty or for the increasing poverty in capitalism? It is our opinion that theories where answers are sought are misleading. First of all, poverty has been defined in a classical sense, and, second, in seeking the causes of poverty economists have resorted to a neoclassical framework.

3. The Concept of Poverty and Its Causes

There are two ways to approach the concept of poverty in conventional theories. First of all, some researchers refuse to deal with the concept. For example, some scholars think that the concept is elusive and impossible to grasp because the meaning depends on the ways of thinking and feeling of each person (Orshansky, 1969; Samuelson and Nordhaus, 1996). Therefore, if poverty does not have a clear definition because it can be manifested in many circumstances, then its causes cannot be identified. Along this line of thought, the World Bank States (2001, 15):

> To be poor is to be hungry, to lack shelter and clothing, to be sick and not cared for, to be illiterate and not schooled. But for poor people, living in poverty is more than this. Poor people are particularly vulnerable to adverse events outside their control. They are often treated badly by the institutions of state and society and excluded from voice and power in those institutions.

The World Bank addresses manifestations of poverty. However, these kinds of assertions resemble a sophism: poverty cannot be defined objectively and the definition depends on the point of view of the observer. Using Marxian methodology, we can say that this approach is superficial and does not deal with the essence of the problem. Besides, historical manifestations of poverty are studied without taking into consideration the social relations in which individuals are embedded (Davis, 1981).

On the other hand, the conceptualization of poverty is associated with low levels of income or public services, which can serve to allow individuals to carry out a minimum way of life. This second approach has classical roots. As Smith (2005, 61) points out:

> A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more, otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation

Similarly, D. Ricardo asserts (2001, 71):

> Labor, like other things that are bought and sold, and that can increase or decrease in quantity, has its natural price and market price. The natural price of labor is the necessary price that allows workers, one with another, to subsist and to perpetuate their race, without increase or diminution

The first noteworthy component of any definition is that poverty is related to salary, and consequently to employment, because for most people the only commodity they have to sell is their labor. Another noteworthy aspect is that on average people must command the resources just to survive. It is our opinion that this way of thinking inherently creates different categories of human beings and allows for inequality.

In other words, it is legitimate that some human beings live at the minimum with deficient alimentation, health, education, housing, etc. On the other hand, a wealthy people can command all the facilities.[2] A capitalist would argue that life is an open race where all people have equal opportunities. True winners overcome all disadvantages and if poor people endure they can be affluent. What is really known, in fact, is that people who are born poor are likely to remain poor, and people who are rich continue being rich (Glyn, 2006). Being born in Africa, India, Haiti, or the Bronx is not the same as being born in the rich mountains of Switzerland.

Furthermore, it is well known that money is power (Lapavitsas, 2006), and capitalists use their money to determine the sphere of politics and culture. In Athenian society, Aristotle (2001) claimed that money was not an end itself but was subordinated to politics. The bourgeoisie, however, have learned to use their money to buy politicians, intellectuals and/or a good education. Therefore, Marshall and Hayek's assumptions that capitalists are neutral and do not use their power is false.

Notwithstanding the act of reducing human beings to live at the minimum, this approach is followed by countries, international organizations, and many researchers. First of all, the European Union (EU) (Eurostat, 2010, 9) states:

2 The General Theory of Employment, Interest, and Money argues for the existence of disparities (1964, 374): "For my own part, I believe that there is social and psychological justification for significant inequalities of income and wealth, but not for such large disparities as exist to-day. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their fruition."

In practice, the EU measures poverty in a relative way, which is established at the 60% of the national median equivalised disposable income after social transfers

> … the EU Council of Ministers agreed back in 1985 and according to which the poor are 'the persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State to which they belong.'

In practice, the EU measures poverty in a relative way, which is established at the 60% of the national median equivalised disposable income after social transfers. Still, even in the EU the idea of a minimum way of life persists. Most people in the EU are above the survival level, but many command only the minimum to function adequately in the countries of the EU. Second, in the US, a poverty line has been established based on a basket of goods that covers minimum requirements for living (a basket of goods that contains the cost of the minimum nutritional requirements multiplied by 3). Thus:

> Orshansky index [is] based on the notion of a fixed market basket of goods and services that are believed to constitute the bare necessities of life. Any household with an income insufficient to purchase these necessities is counted as poor. However, what constitutes a minimum subsistence income is clearly socially defined and will therefore vary across cultures and historical periods (Sawhill, 1988, 1076)

Thirdly, the World Bank defines poverty (1990, 25) as: "as "the inability to attain a minimal standard of living." According to Konkel (2014), the World Bank has been so influential that it has marginalized the use of other concepts of poverty. Thus, a myriad of governments and researchers follow this line of thought, including Comité Técnico (2002), Fischer (1992), Gafar (1998), and Klugman and Braithwaite (1998). Even modern heterodox approaches to poverty define it in the same vein. Sen points out (1985, 669; see also 1983; 2000): "Poverty is 'not having some basic opportunities of material well-being—the failure to have certain minimum capabilities.'"

We have seen that being poor means living with deprivations, but these deprivations do not have to be so large to prevent access to basic food, health, education, etc. There are plenty of commodities in the world and plenty of ways of living, but many of them are not accessible to the poor. In conclusion, in capitalist countries some people must be deprived, but not to the point that is unbearable to the capitalist society. What is unbearable, in turn, depends on each country and changes over time.

To solve poverty, in the classic way of thinking, capitalism must be expanded to ensure higher wages for workers. However, the most popular explanation of the causes of poverty comes from the neoclassical side. In a nutshell, people's survival depends on their endowment, in a pure market economy; survival depends on what is paid by selling the labor force. Then, poverty's elimination makes increasing wages necessary. However, in a neoclassical point of view there is a problem. If labor demand depends on the marginal productivity of labor, and labor supply depends on the sacrifices workers make in terms of giving up leisure time, having higher wages implies that workers sacrifice more leisure time in order to earn more money,[3] then an increased wage implies people can escape poverty, but the negative consequences will be higher unemployment, because the labor demand will be reduced. Marshall points out the consequences of demanding wages above the marginal productivity of labor (1887, XII):

> If they try to force wages so high as to leave a very scanty profit for their employers just at the time when they might expect to make their best harvest, capital will be discouraged from entering the trade; probably even many of those in it will leave it when work gets slack, even if they do not fail when the first touch of depression comes. The men will then find it difficult to get employment, and will probably thus lose more than all they have gained by their extreme demands, even if they should be successful in the first instance; the net gain to themselves will be little if any, the net loss to their employers will be very great; their claims will be unfair.

On the other hand, there are activities with such low marginal productivity of labor that garners such low wages, that an increase in employment precipitates a fall below the poverty line. An example of this phenomenon was women in the labor force in the textile industry in England during 19th century, "where the customary wages are too low to support a healthy life" (Marshall, 1887, XI). In such cases, Marshall suggests that capitalists and workers can reach agreements without using their power. This argument is totally false since neoliberalism has marked the decline in wages in order to increase the rate of profit for capitalists (Duménil and Lévy, 2001). In so doing, capitalists have used their power to defeat unions and inhibit their organization, and to transfer resources from the poor people to the wealthy people. It is also false that higher wages imply a higher rate of unemployment. Figure 5 plots the relationship between hourly wage and the rate of unemployment for European countries in 2013; a straight line with negative slope is the best way to describe the points. The result of the linear regression is:[4]

$$\text{Unemployment rate} = 12.65842 - 0.14146 * \text{hourly wage}$$

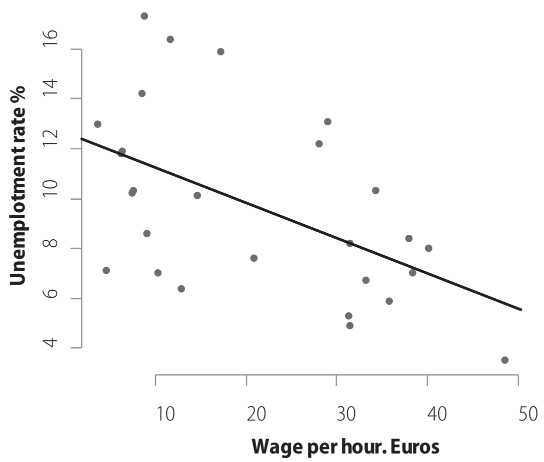
The increase of hourly wage provokes a decrease in the unemployment rate of 0.14146 points. Of course, the results of this regression are just an academic exercise, but the intercept and coefficient are significant (see Table 2A in the appendix). R2 is 28% and diagnostics tests of functional form, heteroskedasticity, autocorrelation and normality in the residuals are fulfilled satisfactorily (see Table 3A in the appendix). Therefore, low wages do not imply

3 Assuming that the economy is in the production-possibility frontier.

4 The regression included 29 countries of the European Union except Greece and Spain, which were identified as outliers.

high rates of employment. On the contrary, low wages imply high rates of unemployment. There is no argument for flexibility of labor.

Figure 5 Wages and Unemployment Rate



Source: Author's elaboration with data from Eurostat 2014.

Why then, if classical and neoclassical assumptions might be false, are they so dominant today? We can highlight two factors: (1) the failure of the Keynesian state to solve the world crisis of 1973/1974, and (2) the failure of development economics in eliminating poverty and inequality in spite of high growth rates for 25 years in Third World countries.

4. The failure of Keynesian and development economics

As is well known, a Keynesian state dominated the economic policy of the vast majority of Western countries from WWII to 1970s. Established policies favored the industrial sector more than the financial sector and in addition to this the Keynesian state built infrastructure. Also, in European countries organized labor conquered the provision of some public services such as health, education, pension funds, etc. In the United States, an implementation of a welfare state was achieved to a lesser degree, but in the 1940s the United Mine of workers won some rights in health care and pension funds (Rosenberg, 2003; Rahman 2012), in the 1960s, organized labor achieved health care for the elderly (Medicare) and the poor (Medicaid), and in the 1970s even more private companies and the government gave more comprehensive health care plans (Le Blanc, 1999). However, after 25 years, the Keynesian state could not solve the 1973/74 crisis. Policy makers increased public spending, but a high rate of inflation soon followed. This phenomenon of stagna-

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Neoclassical and neoliberal economists claimed that the most efficient way to allocate resources was through the market and not the state, and national industrialization projects were abandoned. Most poor countries became again commodity exporters and problems that already existed as the asymmetries between rural and urban areas were exacerbated

tion with high inflation led neoliberal and neoclassical pundits to claim that only the market was efficient. Another victory for neoclassical economics was the failure of development economics, which blossomed from WWII to the 1970s. This school held to three principles: (1) all nations in the world benefited from a high rate of economic growth; there were no winners and losers; (2) underdeveloped countries had excess labor in the rural sector that should be transferred to industrial areas, and (3) poor countries needed to industrialize through high investments. If these points, mentioned before, could not be achieved through a national bourgeoisie because it was very weak, the state should have intervened to provide basic infrastructure and incentives.

Sen (1985) points out that high investment rates resulted in industrialization and subsequent economic growth from 1960 to 1980. However, a failure occurred when countries with high and sustained growth rates did not increase life expectancy at birth, reduce mortality or diminish inequality.

Then development economics had critics everywhere (Hirschman, 2005). The dependency school came from the left, arguing that the development economics were too moderate. Undoubtedly, though, the most influential critics came from the right. Conservative scholars have pointed out that development economics were radical, and that state intervention was pernicious in the economy, as was demonstrated in the Latin American debt crisis of 1982. Neoclassical and neoliberal economists claimed that the most efficient way to allocate resources was through the market and not the state, and national industrialization projects were abandoned. Most poor countries became again commodity exporters and problems that already existed as the asymmetries between rural and urban areas were exacerbated. The phenomenon that tried to eliminate the development economics-- poverty in rural areas due to low productivity of the peasants—subsequently converged with the increase in poverty in urban areas.

5. Towards a critique of the concept and causes of poverty

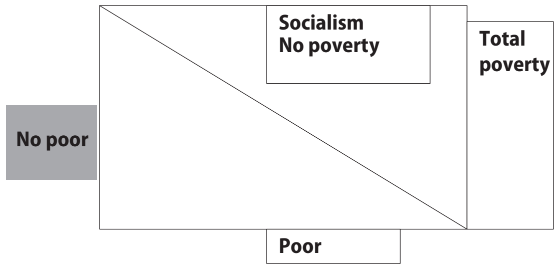
As long as neoclassical and neoliberals do not recognize the inherent problems of capitalism, they cannot explain poverty. We believe that the concept of poverty involves two components: (1) a deprivation of the material conditions for the reproduction of society, and (2) a failure to develop the full capabilities of human beings. The latter is a qualitative component, whereas the first is a quantitative component. The first component must be overcome before the second can be addressed, but fulfillment of the first does not involve achievement of the second (see Marx, 1959). A world without poverty involves satisfaction of both components. We are going to examine this argument more closely.

In general, to ensure the material reproduction of society (the first component of our concept of poverty), an economic act consists of five moments (see Dussel, 2001):

1. A subject has a material need.
2. The subject has to work in order to live.
3. The subject in a society has to appropriate nature.
4. In society, the subject produces a product (which can be entirely for the worker as in the case of primitive communism or can be divided among classes).
5. Society and the subject consume (each class is reproduced as such).

Since human beings do not have material reproduction guaranteed, poverty in its material aspect has always existed in humankind. However, each mode of production has its own characteristics. Three patterns, which can be seen in Figure 6, can be distinguished: (1) the entire population is in poverty due to poor development of the productive forces and the material reproduction of society is not fully guaranteed (second vertical line; this situation might be the case with primitive communism); (2) in the population there are rich and poor, which would be the case with modes of production such as slavery, feudalism and capitalism (diagonal line); and (3) in the population that there is no poverty as is the case with socialism because of the high productivity and different kind of institutions (high horizontal line).

Figure 6 Poor and not poor people in different modes of production



However, the aforementioned point 2 needs clarification. Slavery, feudalism and capitalism all have in common the existence of exploitation. In the first two modes of production, the productive forces are poorly developed, so the existence of poverty in material terms is in some sense inevitable. Meanwhile, in capitalism, even when there is exploitation, the specificity is the high degree of development of the productive forces; poverty could be eliminated in material terms as Karl Marx mentions (1887, 430):

> Under the conditions of accumulation supposed thus far, which conditions are those most favourable to the labourers, their relation of dependence upon capital takes on a form endurable or, as Eden says: —easy and liberal… A larger part of their own surplus-product, always increasing and continually transformed into additional capital, comes back to them in the shape of means of payment, so that they can extend the circle of their enjoyments; can make some additions to their consumption-fund of clothes, furniture, &c., and can lay by small reserve funds of money. But just as little as bet-

> ter clothing, food, and treatment, and a larger peculium, do away with the exploitation of the slave, so little do they set aside that of the wage worker.

Capitalism can potentially eliminate material poverty but it is unable to do because of: (1) capitalism's purpose is profiting in the short run, not the material reproduction of human beings. For example, by the law of capitalist accumulation, capitalism always creates a reserve army of labor. It is good to have a lot of workers without employment, so wages can decrease because workers compete for a job in order to survive, also, it is good the so called flexibility of labor (2) Capitalism is prone to crises that make society poorer each time one occurs. So when capitalism is expanding, it can use more labor or less, depending on the degree of accumulation and exploitation rate, but when a crisis occurs, the material conditions of the population are severely degraded, which exacerbates poverty. Then, coming back to Figure 6, we have the following restriction:

$$aX + bY = W$$

where X is the number of poor people, Y is the number of nonpoor people, a is the total endowment of the poor people (mostly wages),[5] b is the total endowment of the nonpoor people (capital and income), *and* W is the total wealth of the society. In capitalism, material poverty can be reduced only by:

1. An increase in W, holding constant a and b (no class conflict);
2. An improvement in the distribution of wealth (the capitalist loses);
3. Reduction of the poverty line cut-off (people living at the minimum level); the capitalist wins.

Capitalism may end up with material poverty, but capitalism is prone to crises, or seeking higher profits reduces real wages of the workers, thereby increasing poverty levels, as has been the case in the neoliberal period. If capital and income were redistributed, capitalism would no longer exist, so solidarity, cooperation and redistribution are not key characteristics of capitalism. The points made in this Section 5 are summarized in Table 2. The first column indicates the time, the second column represents modes of production, the third column shows whether or not material reproduction of society is guaranteed in each mode of production and the last column presents whether or not human beings can realize their full capabilities (true development). Capitalism can end material poverty in theoretical terms at least potentially; however, the kind of poverty that capitalism cannot eliminate is where the human beings are exploited because in capitalism men and women are just workers and their lives are dedicated to serving others. Exploitation always exists and people cannot develop their full human potential because they are just commodities. Sen (2000, 7) argument "praised of capitalism by Karl Marx … of the American Civil War… related directly to the importance of the freedom of labor and contract as opposed to slavery and the enforced exclusion from the labor markets " is misleading and rejects history and social relations. It is true that Marx in several writings praised capitalism in opposition to other modes of production –as in the case of India in the 19th century–, but markets belonged to a social and historical space that had to be transcended. Two examples make clear Marx's point on view criticizing capitalist institutions.

5 Wages, income and capital are in real terms.

First of all, talking about private property and the way human beings search the satisfaction of their needs (1959, 49):

> Under private property their significance is reversed: every person speculates on creating a *new* need in another, so as to drive him to fresh sacrifice, to place him in a new dependence and to seduce him into a new mode of *enjoyment* and therefore economic ruin. Each tries to establish over the other an *alien* power, so as thereby to find satisfaction of his own selfish need. The increase in the quantity of objects is therefore accompanied by an extension of the realm of the alien powers to which man is subjected, and every new product represents a new *potentiality* of mutual swindling and mutual plundering. Man becomes ever poorer as man

Second, specifically talking on labor markets, Marx singled out that workers had to go beyond (1975, 78 and 79):

> At the same time, and quite apart from the general servitude involved in the wages system, the working class ought not to exaggerate to themselves the ultimate working of these everyday struggles. .. "*A fair day's wage for a fair day's work!*" they ought to inscribe on their banner the revolutionary watchword, "*Abolition of the wages system!*"

Solving poverty in the present day not only makes necessary an increase in productivity but another institutional framework that the world does not belong to capitalism.

Table 2
Evolution of poverty through history and its conceptualization

Time	Modes of production	Material conditions	Human being realization
I	Primitive Communism	Low	Possible
II	Slavery and Feudalism	Low	No possible
III	Capitalism	High	No possible
IV	Socialism	High	Possible

6. Conclusion

In this article we have seen the following: (1) the evolution of poverty in the United States and Europe, (2) the conceptualization of poverty and its causes from an orthodox point of view (classic and neoclassic), and (3) Marx's foundations to refute classic and neoclassical lines of thought. It is our way of thinking that flexibility of labor does not pair the increase of the volume of employment, quite the contrary, high wages provoke high level of employment in the European Union. We claim that poverty implies a material deprivation but also the impossibility of full human potential. In order to achieve the elimination of poverty in capitalism, not only is a revolution in the productive forces necessary but also a new set of historical institutions. Of course, these new kinds of institutions do not have to be grounded in competition and methodological individualism.

Appendix

Table 1. A
Unit root test. P-values including intercept and trend

Variable	ADF-Test	PP- Unit Root Test	KPSS-Test
Poverty growth rate	0.05295	0.01	0.044

Table 2. A
Regression results

	Min	1Q	Median	3Q	Max
Residuals	-4.90	-2.19	-0.22	1.80	5.886
Coefficients	Estimate	Std.Error	tvalue	P-values	
Intercept	12.65842	1.14123	11.092	3.81e-11***	
Wage	-0.14146	0.04572	-3.094	0.00481**	
Multiple	Adjusted				
R-squared	R-squared	F-statistic	p-value		
0.2769	0.248	9.572	0.004813		

Table 3. A
Diagnostic tests for the regression

Diagnostics	Test	P-values
Functional form	RESET test	0.9985
Autocorrelation	Durbin-Watson test	0.5892
Heteroskedasticity	Goldfeld-Quandt test	0.1076
Normality	Shapiro-Wilk normality test	0.2602

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